

SANTANDER ACTIVITY INDEX**SAI SHOWS A CONTRACTION IN ACTIVITY IN MAY AS A RESULT OF DECELERATION IN AGRICULTURE**

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- **Santander's monthly activity index (SAI) showed a contraction in economic activity in May.** The SAI generated a reading of -0.09 points, well below April's positive reading of 0.06 points and the first negative reading since October 2021. After a positive 1Q23 GDP performance, this SAI result reinforces our view that domestic activity will likely return to a decelerating trend from 2Q23 onward.
- **Zooming in on the details, goods-related sectors remained weak while agriculture contributed negatively after a string of positive results.** The industrial reading remained close to neutral, +0.01 points, after eight consecutive negative figures. The retail component printed its second consecutive negative contribution, -0.04 points while cyclical services continued to contribute positively, +0.04 points, close to April's figure. The labor market remained neutral, +0.00 points. Lastly, the farm output component contributed negatively, -0.09 points, which marked the end of its positive influence on the index over the summer as a result of record grain crops.
- **Available data for June point to further negative readings.** Looking at the tertiary sector, FGV's economic confidence data for households, services, and retail remain below the neutral threshold, while our proprietary data (IGet) suggest contraction in retail sales and a slight increase in services rendered to families. Looking at industry, both FGV's industrial confidence and PMI manufacturing remain below the neutral threshold.
- **Financial conditions remain highly restrictive, but with some improvement at the margin.** Santander's financial conditions indicator reached 0.62 points in June (down slightly from 0.86 points in May). Excluding oil prices from the analysis, financial conditions reached 0.90 points in June (also down slightly from 1.11 points in May). These figures will continue to pose challenges to cyclical activities this year.
- **In the short term, our 2Q23 GDP growth forecast stands at +0.0% QoQ-sa.** Our 2023 GDP growth forecast stands at +1.9%. We continue to see signs of deceleration for economic activity ahead, as more cyclical segments indicate a slowing trend owing to highly restrictive financial conditions. In addition, we expect the positive impact of the record summer crops to be limited to 1Q23 and the beginning of 2Q23.

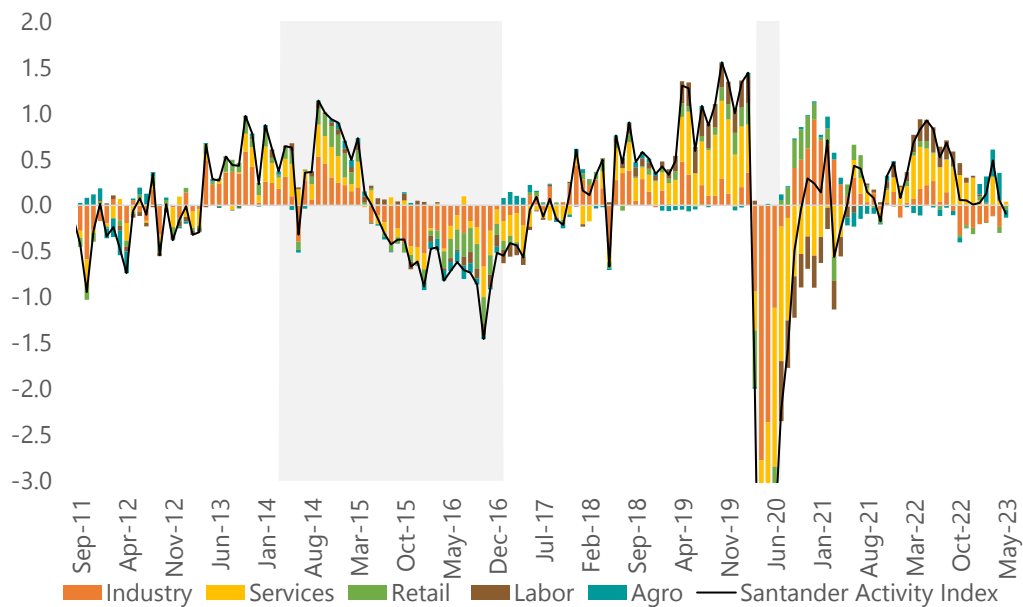


Figure 1 – Santander's Activity Index Breakdown

| Santander Activity Index | | | | | | | |
|--------------------------|-------------|--------------|--------------|--------------|--------|--------------|--------------|
| | Weights | Headline | | | Change | | |
| | | Mar-23 | Apr-23 | May-23 | Apr-23 | May-23 | |
| SAI | 100% | 0.49 | 0.06 | -0.09 | ↓ | -0.43 | -0.15 |
| Industry | 20% | -0.11 | -0.23 | 0.01 | ↑ | -0.12 | 0.24 |
| Services | 28% | 0.30 | 0.05 | 0.04 | ↓ | -0.25 | -0.02 |
| Retail | 14% | 0.01 | -0.06 | -0.04 | ↑ | -0.08 | 0.02 |
| Labor | 25% | -0.01 | 0.01 | 0.00 | ↓ | 0.01 | -0.01 |
| Farm Output | 13% | 0.29 | 0.29 | -0.09 | ↓ | 0.00 | -0.38 |
| Goods Sector | 34% | -0.10 | -0.30 | -0.04 | ↑ | -0.20 | 0.26 |
| Services Sector | 54% | 0.30 | 0.06 | 0.03 | ↓ | -0.24 | -0.03 |

Sources: Bloomberg, IBGE, Santander.

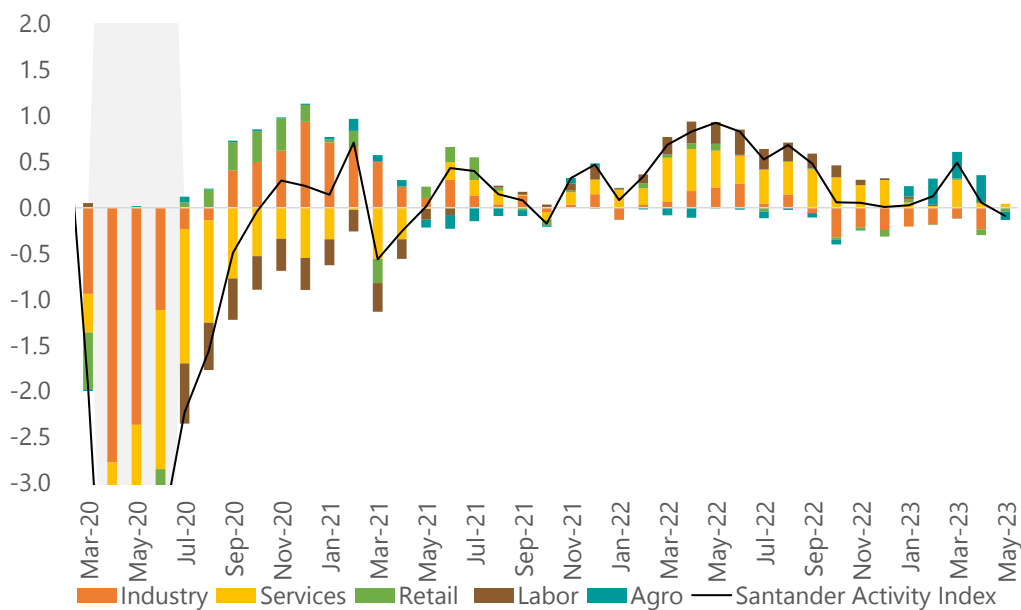
Figure 2 – Santander's Activity Index (from 2011 to 2023)



Sources: IBGE, FGV, Santander.

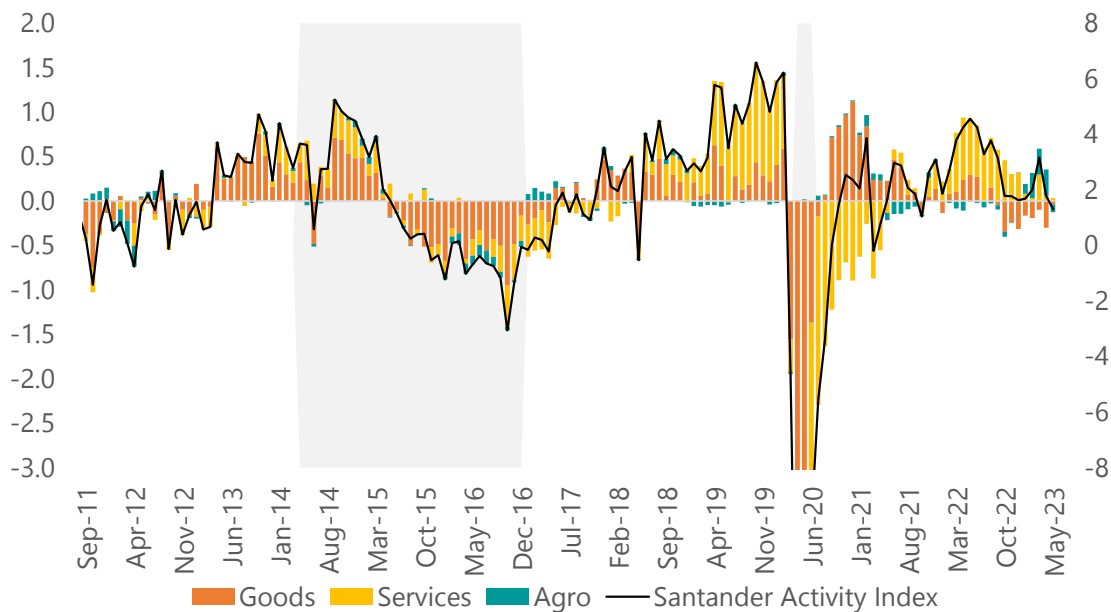


Figure 3 – Santander's Activity Index (from 2020 to 2023)



Sources: IBGE, FGV, Santander.

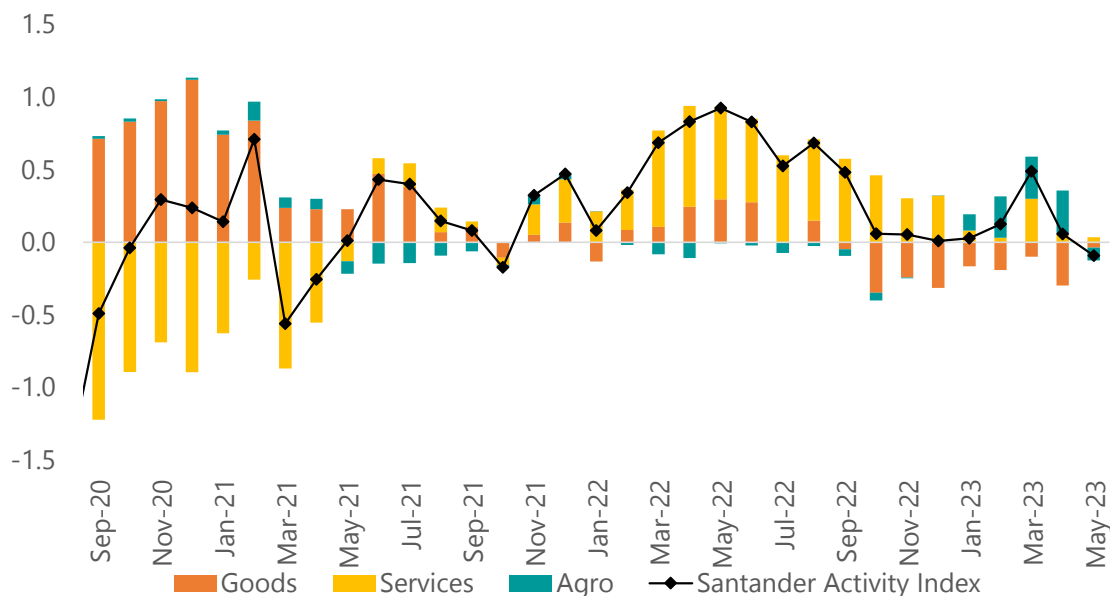
Figure 4 – Santander's Activity Index Breakdown (from 2011 to 2023)



Sources: IBGE, FGV, Santander.

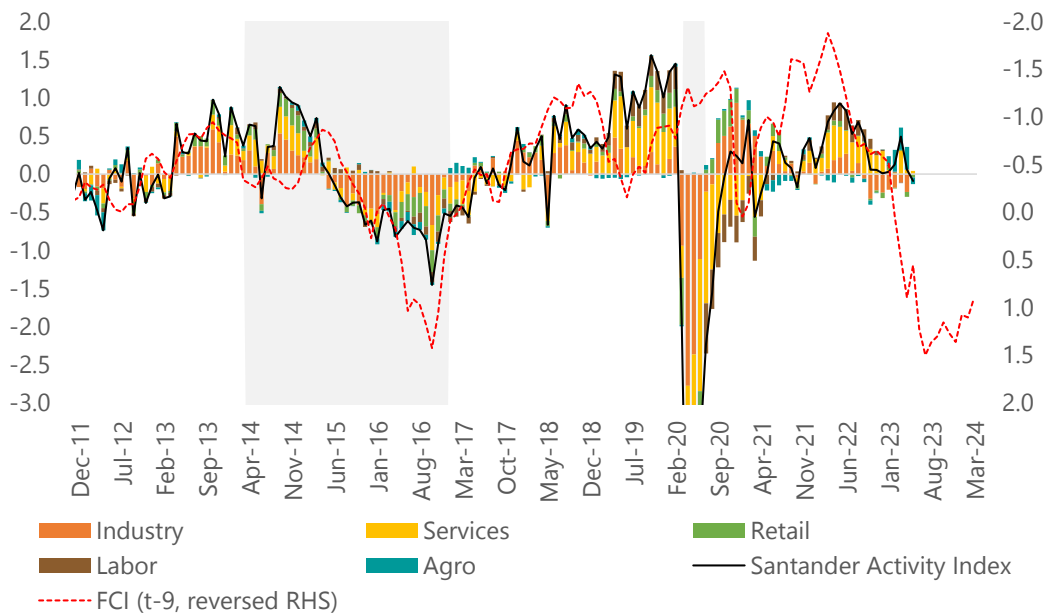


Figure 5 – Santander's Activity Index Breakdown (from 2020 to 2023)



Sources: IBGE, FGV, Santander.

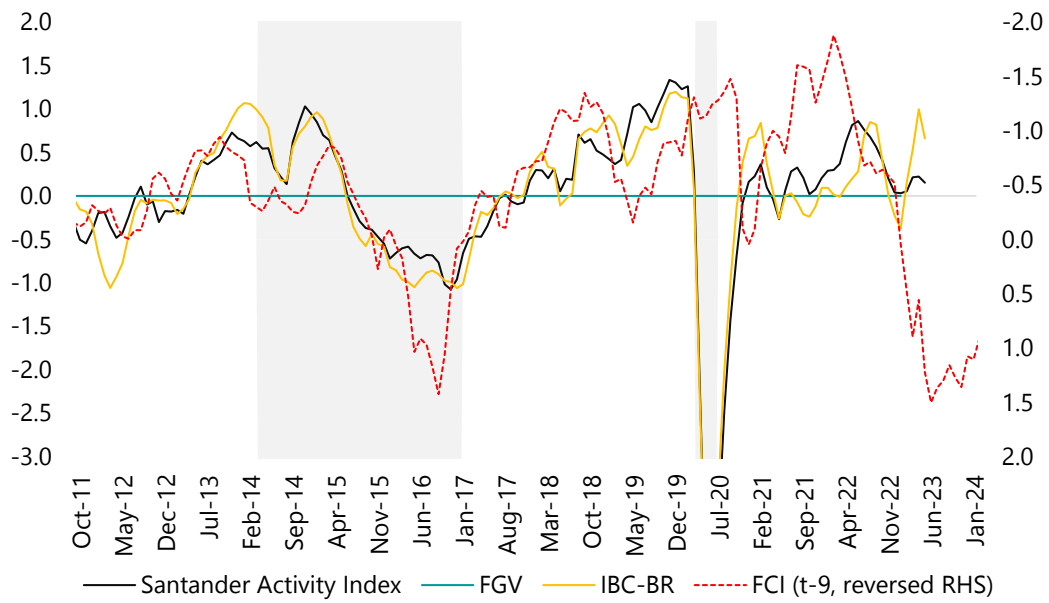
Figure 6 – Santander's Activity Index vs. Financial Conditions Indicator (from 2011 to 2023)



Sources: IBGE, FGV, Bloomberg, Santander.



Figure 7 – SAI vs. IBC-Br and Financial Conditions Indicator (from 2011 to 2023)



Sources: IBGE, FGV, BCB, Bloomberg, Santander. *SAI and BCB's IBC-Br are presented in 3-month moving average.



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